

SUMMARY ANALYSIS OF AMENDED BILL

Franchise Tax Board

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Bill Number: SB 417

Related Bills: See Prior Analysis

Telephone: 845-3627

Amended Date: 04-24-2003

Attorney: Patrick Kusiak

Sponsor: _____

SUBJECT: Exclusion/Qualified Civil Service Retirement Annuity Income

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _____.

X AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _____.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO _____.

REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED

X February 20, 2003, STILL APPLIES.

OTHER - See comments below.

SUMMARY

This bill would exclude from gross income amounts received from a federal civil service retirement annuity.

SUMMARY OF AMENDMENTS

The April 24, 2003, amendments added specified percentages to the amount of civil service retirement annuity income to be excluded from gross income. The percentage of annuity payments to be excluded from gross income would be:

- five percent for taxable years beginning on or after January 1, 2004, and before January 1, 2005,
- 10 percent for taxable years beginning on or after January 1, 2005, and before January 1, 2007, and
- 15 percent for taxable years beginning on or after January 1, 2007.

A new revenue estimate is included below, as well as the policy consideration from the department's prior analysis. The remainder of the department's analysis of the bill as introduced February 20, 2003, still applies.

POSITION

Pending.

Board Position:

<u> </u> S	<u> </u> NA	<u> </u> NP
<u> </u> SA	<u> </u> O	<u> </u> NAR
<u> </u> N	<u> </u> OUA	<u> </u> X PENDING

Legislative Director
Brian Putler

Date
04/29/03

ECONOMIC IMPACT

Revenue Estimate

Revenue Impact (\$ Millions)			
Fiscal Year	2004-05	2005-06	2006-07
Revenue Loss	-3	-3	-4

This bill does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

Revenue Discussion

Revenue losses were estimated by the use of the personal income tax model to simulate the exemption of pension income. The 5% of excluded annuities in 2004 amounts to -\$143 million. From national data, it is known that federal civil service retirement benefits compose 11% of all retirement annuities (public and private). This 11% was applied to the -\$143 million projected by the tax model, then multiplied by 9.9% (the amount of retirement annuity from the Civil Service Retirement System). The resulting estimate was -\$1.6 million.

The 2005 and 2006 nontaxable 10% exclusion are projected to be -\$309 million and -\$319 million, respectively. The 11% and 9.9% were applied, for estimates of -\$3.4 million and -\$3.5 million. For 2007, the 15% nontaxable exclusion will be -\$488 million. Applying the 11% and 9.9% rates results in an estimated -\$5.3 million.

The revenue estimates in the above paragraph were calculated on a tax-year liability basis and then converted to fiscal year, cash-flow projections (July 1 through June 30). The Tax Revenue Estimate table above reflects this conversion. In the first fiscal year, 2004-05, all of tax year 2004 was used, as well as a portion of 2005 to take into account the timing of changes to withholding and estimated taxes paid throughout the year.

LEGISLATIVE STAFF CONTACT

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